ON SEMICONDUCTOR CORPORATION

CALL SCRIPT
FOR
Q3-15 RESULTS CONFERENCE CALL

Parag Agarwal

Thank you <operator> .

Good morning and thank you for joining ON Semiconductor Corporation's third quarter 2015 quarterly results conference call. I'm joined today by Keith Jackson, our President and CEO, and Bernard Gutmann, our CFO. This call is being webcast on the "Investors" section of our website, at www.onsemi.com. A replay will be available on our website approximately one hour following this live broadcast and will continue to be available for approximately 30 days following this conference call, along with our earnings release for the third quarter of 2015. The script for today's call is posted on our website. Additional information related to our end markets, business segments, geographies, channels, and share count is also posted on our website.

Our earnings release and this presentation include certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most directly comparable measures under GAAP are in our earnings release, which is posted separately on our website in the "Investors" section.

During the course of this conference call, we will make projections or other forward-looking statements regarding future events or the future financial performance of the company. The words "believe," "estimate," “project,” "anticipate," "intend," “may,” "expect,” “will,” "plan," "should" or similar expressions are intended to identify forward-looking statements. We wish to caution that such statements are subject to risks and uncertainties that could cause actual events or results to differ materially from projections. Important factors which can affect our business, including factors that could cause actual results to differ from our forward-looking statements, are described in our Form 10-Ks, Form 10-Qs and other filings with the Securities and Exchange Commission.

Additional factors are described in our earnings release for the third quarter of 2015. Our estimates may change, and the company assumes no obligation to update forward-looking statements to reflect actual results, changed assumptions, or other factors, except as required by law.

During the fourth quarter, we will be attending the Credit Suisse Technology Conference on December 1, in Scottsdale, Arizona.

Now, let me turn it over to Bernard Gutmann, who will provide an overview of the third quarter 2015 results. Bernard….

Bernard Gutmann

Thank you Parag, and thank you everyone for joining us today.

Let me start by providing an update on overall business results. As many of our peers in the semiconductor industry have noted, the global macro-economic environment remains challenging. Despite a rather challenging macroeconomic environment, we were able to deliver relatively strong growth driven by share gains and ramp of our design wins across multiple end-markets.

Although our revenue grew at a reasonable pace in the third quarter, being a broad-based analog company exposed to multiple end-markets and geographies, we are not totally immune from the impact of prevailing economic challenges. We saw weakness in the communications end-market and broad-based weakness in China. In response to soft macroeconomic conditions, we have taken a number of measures to control costs and expenses. These measures include permanent actions such as targeted headcount reductions and temporary measures such as shutdown of facilities during the holidays and elimination of non-critical spending across the company. The impact of these cost reduction measures is reflected in our guidance for the fourth quarter. We are fully prepared to take further actions to reduce our costs and expenses if the macroeconomic conditions continue to be challenging.

Now, let me provide you an update on our third quarter 2015 results. ON Semiconductor today announced that total revenue for the third quarter of 2015 was approximately $904 million, an increase of approximately three percent as compared to the second quarter of 2015.

GAAP net income for the third quarter was $0.11 per diluted share. Excluding the impact of amortization of intangibles and restructuring, and other special items, non-GAAP net income for the third quarter was $0.23 per diluted share.

GAAP and non-GAAP gross margins for the third quarter were 34.1 percent, as compared to 34.6 percent in the second quarter of 2015. The 50 basis points of sequential decline was largely driven by lower utilization in the third quarter as compared to the second quarter, unfavorable product mix, and ASP pressure in certain markets. We experienced stronger than expected growth in computing and consumer, whereas growth in automotive and communications lagged expectations. Keith will provide additional details on the end-markets in his prepared remarks. Average selling prices for the third quarter decreased by approximately two percent as compared to the second quarter. Despite a sequential revenue growth of approximately 3% in the third quarter, utilization of our factories was lower as compared to the second quarter. We reduced utilization of our factories to manage internal and distribution channel inventory levels.

GAAP operating margin for the third quarter of 2015 was approximately 7.7 percent, flat quarter over quarter. Our non-GAAP operating margin for the third quarter was 11.8 percent, down approximately 50 basis points as compared to the second quarter of 2015, primarily due to lower gross margin in the third quarter.

GAAP operating expenses for the third quarter were approximately $239 million, as compared to approximately $237 million for the second quarter of 2015. Non-GAAP operating expenses for the third quarter were approximately $202 million, up approximately $6 million as compared to the second quarter of 2015. As expected, annual merit increases, which become effective in the third quarter, were the primary contributors of the higher operating expenses in the third quarter, as compared to the second quarter.

We exited the third quarter of 2015 with cash, cash equivalents and short term investments of approximately $558 million, a decrease of approximately $20 million from the second quarter. Operating cash flow for the third quarter was approximately $128 million, as compared to approximately $102 million in the second quarter. We spent approximately $65 million of cash for the purchase of capital equipment. During the third quarter, we used approximately $30 million for the repayment of long term debt and capital leases and we used approximately $100 million to repurchase approximately 9.4 million shares of our common stock at an average price of $10.64. At the end of the third quarter, approximately $648 million remained of the total authorized amount of $1 billion under the current stock repurchase program, which was announced on December 1, 2014. We remain fully committed to our $1 billion stock repurchase program, and the current pace we are tracking significantly ahead of ratable repurchases in our stock repurchase program. We believe that at current level, the stock price does not fully reflect the potential of our company, and use of our excess cash to repurchase our stock is a compelling investment.

At the end of the third quarter of 2015, ON Semiconductor days of inventory on hand were 116 days, down approximately two days from the prior quarter. In the third quarter of 2015, distribution inventory decreased by approximately $21 million quarter-over-quarter and distributor re-sales increased by approximately one percent quarter-over-quarter. In terms of days, distribution inventory declined to the lowest level in last approximately one year.

For the third quarter of 2015, our lead times were approximately flat as compared to the second quarter. Our global factory utilization for the third quarter was down slightly as compared to the second quarter. As I had indicated earlier, our factory utilization was lower than expected as we reduced loadings to manage inventory levels.

Now let me provide you an update on performance of our business units, starting with Image Sensor Group. Revenue for our Image Sensor Group was approximately $189 million, up approximately 9 percent over the second quarter. Revenue for our Standard Products Group for the third quarter of 2015 was approximately $312 million, up approximately one percent quarter-over-quarter. Revenue for our Application Products Group was approximately $275 million, up approximately 5% over the second quarter. Revenue for the third quarter of 2015 for System Solutions Group was approximately $128 million as compared to $136 million in the second quarter. A steep decline in appliances related revenue in China and broad-based weakness in Japan contributed to weaker than expected revenue from our Systems Solutions Group.

Now, I would like to turn the call over to Keith Jackson for additional comments on the business environment. Keith …

Keith Jackson

Thanks Bernard.

Let me start with comment on the business trends in the third quarter. Bookings during the third quarter were stable and we did not see any significant variation in booking trend throughout the quarter. From a revenue perspective, we saw weakness in Americas, Japan and China. Gains in the security market helped us offset much of the weakness in China. As Bernard indicated in his prepared remarks, the global macro-economic environment remains challenging, which we believe is leading to weaker than seasonal trends in our business. However, we are not seeing a noticeable change in underlying fundamentals of our business. Bookings thus far in the current quarter have been stable and current trends point to improving business conditions early next year.

Although the current macroeconomic environment poses significant challenges to our business, we continue to outpace the industry in revenue growth as our design wins convert to revenue. Our strategy of focusing investments in automotive, industrial and smartphone markets is yielding strong results, and I believe that our momentum in these markets should accelerate in 2016 as we launch additional new products to address these markets.

As Bernard indicated in his prepared remarks, in response to a slowing demand environment, we have taken a number of measures to manage our expenses. At this time we don’t see the need for a deep cut in our operating expenses, but if the macroeconomic environment continues to deteriorate, we will act to realign our costs with revenue.

Now, I’ll provide some details of the progress in our various end-markets.

The **Automotive** end-market represented approximately 31 percent of our revenue in the third quarter and was approximately flat quarter-over-quarter, despite a weaker seasonality in the third quarter.

Demand remains strong for our image sensor solutions driven by the increased adoption of rearview cameras and ADAS Safety Systems. Our LED Driver business continues to show growth driven by increased usage across all vehicle segments. Additionally, we saw good results in our automotive related power management analog products business as Switched Mode Power Supplies continue to proliferate in light vehicles. Finally, our Power MOSFET business continues to grow as we continue to expand our portfolio and package options.

Our automotive related design win pipeline continues to grow at a rapid pace. During the third quarter, we secured design wins for our VGA Image Sensor to support the 2018 United States mandate for Rear View Cameras. We also won design for a substantial sensor interface IC opportunity for powertrain application in Europe. For body electronics, we secured an important win at a key European Automotive tier-1 integrator for our SmartFET products for relay replacement.

Revenue for the fourth quarter in the automotive end-market is expected to be flat quarter over quarter.

The **Communications** end-market, which includes both networking and wireless, represented approximately 18 percent of our revenue in the third quarter, and was up approximately 2 percent quarter-over-quarter, driven by ramp of new programs during the third quarter.

We continue to increase our presence with the key players in the smartphone market, and so far this year, we have posted robust year over year growth in revenue from a few strategically important smartphone customers. We continue to be on track with our wireless charging program and we expect to see initial revenue ramp starting in early 2016.

Revenues for the fourth quarter in the communications end-market are expected to be down quarter over quarter.

The **Consumer** end-market represented approximately 15 percent of our revenue in the third quarter, and was up approximately 7 percent quarter-over-quarter driven by seasonality and ramp of new programs for the action sports camera market.

In the third quarter, a leading customer in the action sports camera market launched three new cameras using our image sensors. Growth in consumer market was also driven by build of video game consoles ahead of the holiday season. Appliance related consumer revenue declined sharply in the third quarter due to seasonality and excess channel inventory in China.

Revenue for the fourth quarter for our consumer segment is expected to be down quarter over-quarter due to normal seasonality.

The **Industrial** end-market, which includes military, aerospace and medical, represented approximately 23 percent of our revenue in the third quarter and was approximately flat quarter-over-quarter.

We saw broad based weakness in the industrial market. However share gains in the security market helped us offset much of the weakness. We have seen a significant slowdown in demand from our large global industrial OEMs. We believe that a softening macroeconomic condition, especially in China is the primary driver of slowdown in demand in the industrial end-market. Residential construction remains a bright spot in the industrial market and we continue to grow our share in the residential circuit breaker market. In the security market, sales of our image sensors grew by more than 20% quarter over quarter. We also saw strength in other industrial sub-segments, such as in machine vision for our CMOS and CCD image sensors. We expanded the PYTHON family of high-performance Global Shutter sensors with the introduction of various members of PYTHON family, ranging in resolution from 10 megapixels to 25 megapixels.

Revenue for the fourth quarter for our industrial segment is expected to be down quarter-over-quarter.

The **Computing** end-market represented approximately 13 percent of our revenue in the third quarter, and was up approximately 10 percent compared to the second quarter, driven primarily by ramp in Intel's Skylake platform.

We believe that not only our content has increased in a significant manner on the Skylake platform, but also we are gaining share. We expect our market share gains and content increase to continue in 2016.

Revenue for the fourth quarter for our computing segment is expected to be flat quarter-over-quarter.

Now, I would like to turn it back over to Bernard for other comments and our other forward-looking guidance. Bernard…

Bernard Gutmann

Thank you, Keith.

Now for fourth quarter of 2015 outlook. Based on product booking trends, backlog levels, and estimated turn levels, we anticipate that total ON Semiconductor revenues will be approximately $830 million to $870 in the fourth quarter of 2015. Backlog levels for the fourth quarter of 2015 represent approximately 80 to 85 percent of our anticipated fourth quarter

2015 revenues. We expect inventory at distributors to decline quarter over quarter on a dollar basis. We expect total capital expenditures of approximately $55 million to $65 million in the fourth quarter of 2015.

For the fourth quarter of 2015, we expect GAAP and non-GAAP gross margin of approximately 32.6 percent to 34.6 percent. We intend to reduce our factory utilization in the fourth quarter as compared to the third quarter to manage our internal and channel inventories.

We expect total GAAP operating expenses of approximately $225 million to $237 million. Our GAAP operating expenses include the amortization of intangibles, restructuring, asset impairments, and other charges, which are expected to be approximately $37 million to $39 million. We expect total non-GAAP operating expenses of approximately $188 million to $198 million. The sequential decline of approximately $9 million is driven by our expense reduction measures.

We anticipate GAAP net interest expense and other expenses will be approximately $13 million to $16 million for the fourth quarter of 2015, which include non-cash interest expense of approximately $6 million. We anticipate our non-GAAP net interest expense and other expenses will be approximately $7 million to $10 million.

GAAP taxes are expected to be approximately $2 million to $6 million, and cash taxes are expected to be approximately $5 million to $8 million.

We also expect share based compensation of approximately $11 million to $13 million in the fourth quarter of 2015, of which approximately $2 million is expected to be in cost of goods sold, and the remaining amount is expected to be in operating expenses. This expense is included in our non-GAAP financial measures.

Our diluted share count for the fourth quarter of 2015 is expected to be approximately 418 million shares, based on the current stock price. Further details on share count and earnings per share calculations are provided regularly in our quarterly and annual reports on Form 10-Q and Form 10-K.

With that, I would like to start the Q&A session. Thank you and <operator> please open up the line for questions.

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